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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, JULY 12, 2000

APPLICATION OF

COLUMBIA GAS OF VIRGINIA, INC.

CASE NO. PUE990781

For approval of a special rate
and contract

FINAL ORDER

On November 12, 1999, Columbia Gas of Virginia, Inc. ("Columbia" or "the Company"), filed public and confidential versions of an application with the State Corporation Commission ("Commission") for approval of a special rate and contract for natural gas transportation service¹ it will provide to Chaparral (Virginia), Inc. ("Chaparral"), a steel recycling facility located in Dinwiddie County, Virginia. This application was filed pursuant to § 56-235.2 of the Code of Virginia and the Commission's Guidelines for Filing an Application to Provide Electric and Gas Service under a Special Rate, Contract, or Incentive, 20 VAC-5-310-10, adopted in Case No. PUE970695 ("Guidelines"). Columbia's agreement with Chaparral provided for service to be provided under the Company's Schedule TS-2 and

¹ Columbia and Chaparral entered into an agreement for natural gas transportation service on January 26, 1999.

its General Terms and Conditions of Service at a special negotiated rate for transportation service.

On January 13, 2000, the Commission issued an Order for Notice and Hearing that directed Columbia to publish notice of its application, established a procedural schedule for the Company, Staff, protestants, and public witnesses, and set the matter for hearing on April 12, 2000, before a Hearing Examiner. That Order directed Columbia to supplement its application to provide the Commission with information on why confidential treatment of various portions of its application was required. The Order also permitted the Company to request entry of a further ruling governing confidential treatment of documents filed in this proceeding.

On January 24, 2000, Columbia filed a Motion for Protective Order, together with a draft protective order. On January 27, 2000, the Hearing Examiner entered a Ruling authorizing responses to the Company's motion. After considering the Staff's response to the Company's motion and Columbia's reply thereto, the Hearing Examiner entered a protective ruling on February 17, 2000. The protective ruling afforded the Staff access to confidential portions of the captioned application and established a procedure to guard against the disclosure of confidential information to competitors or customers of Columbia or Chaparral.

On February 28, 2000, Chaparral filed its Notice of Protest, and on March 6, 2000, it filed its Protest with the Commission.

Michael D. Thomas, Hearing Examiner, convened a public hearing on the application on April 12, 2000. Counsel appearing were Kodwo Ghartey-Tagoe, Esquire, and James S. Copenhaver, Esquire, counsel for Columbia; Michael E. Kaufmann, counsel for Chaparral; and Wayne N. Smith, Esquire, and Sherry H. Bridewell, Esquire, counsel for the Commission Staff. Columbia's proof of public notice was received into the record as Exhibit A. John Sternlicht, Director of Community Relations, Policy and Legislation for the Virginia Economic Development Partnership, appeared as a public witness in support of Columbia's application. Pursuant to an agreement of the case participants, the prefiled testimonies and errata sheets of Columbia and the Staff were received into the record as exhibits without cross-examination.

On June 8, 2000, the Hearing Examiner issued his Report. In his Report, the Hearing Examiner summarized the record and concluded that none of Columbia's other customers or classes of customers would be prejudiced or disadvantaged by approving the subject contract. He noted that the record demonstrated that the special rate and contract would provide a positive return to Columbia. According to the Hearing Examiner, the record is

unrebutted that a primary motivating factor for Chaparral to locate in Virginia was the flexibility provided by § 56-235.2 of the Code of Virginia to negotiate special rates for utility service. He concluded that the special rate and contract would not jeopardize reliable service to any other Columbia customer. The Hearing Examiner also found that the Company's provision of service to Chaparral required the construction of a pipeline system that was not connected to any other part of Columbia's system and that this system had sufficient capacity to serve Chaparral and other businesses that choose to locate near Chaparral's facility.

The Hearing Examiner also found that the special rate firm gas transportation contract between Columbia and Chaparral satisfied the requirements of § 56-235.2 of the Code of Virginia and recommended that the Commission enter an order that adopts the findings contained in his Report; approves Columbia's special rate and contract for firm transportation of natural gas and balancing services for Chaparral's facility in Dinwiddie County; directs Columbia, pursuant to the agreement of counsel, to include Chaparral in a classification called "Special Contracts, LVTS, and Economic Development" for presentation purposes in future cost-of-service studies; and dismisses the proceeding from the Commission's docket of active cases. The

Hearing Examiner invited the parties to file comments to his report within fifteen (15) days from the date of its issuance.

On June 22, 2000, Columbia, by counsel, and Chaparral, by counsel, each filed comments in support of the Hearing Examiner's Report.

NOW THE COMMISSION, upon consideration of the record and the June 8, 2000, Hearing Examiner's Report, the comments thereon, as well as the applicable statutes and Guidelines, is of the opinion and finds that Columbia's application should be approved, subject to the requirements described below for the presentation of Chaparral in future cost of service studies and subject to the requirement that any future amendments to this special rate and contract receive additional Commission approval.

We agree with the Hearing Examiner's findings that no other customer or class of customers would be unreasonably prejudiced or disadvantaged by the approval of this special rate and contract. The evidence in the record demonstrates first that the special rate will cover the operation and maintenance costs for service to Chaparral, and provides a contribution to Columbia's overall cost of service that might not otherwise have been made. Chaparral's contribution to the cost of service offsets costs that would otherwise be recovered from the Company's other customers. The testimonies of Chaparral witness

Clark and Columbia witness Horner indicate that one factor motivating Chaparral to locate in Virginia was the availability of a discounted special rate for the Company's service. Were the special rate not available, Chaparral might have decided to locate elsewhere, and Columbia's customers would not have the benefit of Chaparral's contribution to the Company's overall return on rate base and the overall favorable effect on Columbia's rates.

With regard to the special rate and contract, we will require Columbia, consistent with its representation to the Hearing Examiner, to include Chaparral in a classification called "Special Contracts, LVTS, and Economic Development" for presentation purposes in future cost of service study evaluations. Such classification would consist of the Company's present LVTS customer class, LVEDTS class, and any special rate customers such as Chaparral. We further find that Columbia should present additional cost of service information relative to the individual customers within the classification in the event Staff requests such information. Additionally, consistent with the Company's representation to the Hearing Examiner and with Staff witness Spinner's recommendation (Exhibit HS-5 at 10), we will require Columbia to seek our approval in the event the contract entered into by Chaparral and Columbia on January 26, 1999, is amended.

In sum, subject to the foregoing directives, we find that the contract and special rate between Columbia and Chaparral appear to be in the public interest, will not unreasonably prejudice or disadvantage any customer or class of customers, and will not jeopardize the continuation of reliable natural gas service. Consistent with our Guidelines, it does not appear, based on the record made in this case, that Columbia's other customers will be caused to bear increased rates as a result of our approval of Columbia's special rate and contract with Chaparral.

Accordingly, IT IS ORDERED THAT:

(1) Columbia's application to provide firm gas transportation service to Chaparral under a special rate and contract is granted.

(2) Columbia shall seek further Commission approval if the agreement between Chaparral and Columbia is amended.

(3) Chaparral shall be included in a classification called "Special Contracts, LVTS, and Economic Development" for presentation purposes in future cost-of-service study evaluations. This classification for presentation in a cost of service study shall consist of the Company's present LVTS customer class, LVEDTS class, and any special rate customers, such as Chaparral. Columbia shall also present additional cost-of-service information relating to individual customers within

this cost-of-service classification if our Staff requests such information.

(4) There being nothing further to be done herein, this matter shall be dismissed from the Commission's docket of active proceedings, and the papers filed herein shall be placed in the Commission's file for ended causes.